



WEEKLY ECONOMIC DIGEST



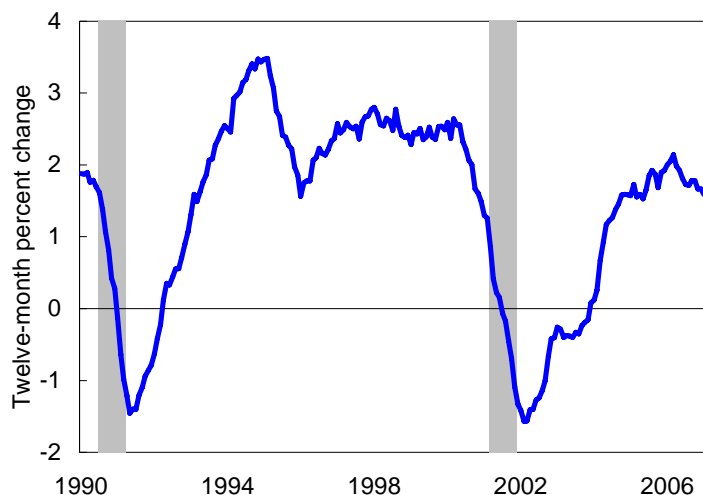
JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) — CHAIRMAN

February 2, 2007

Labor Market Shows Signs of Cooling

Change in Nonfarm Payroll Employment



Source: Bureau of Labor Statistics, U.S. Department of Labor; and National Bureau of Economic Research.

Note: The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

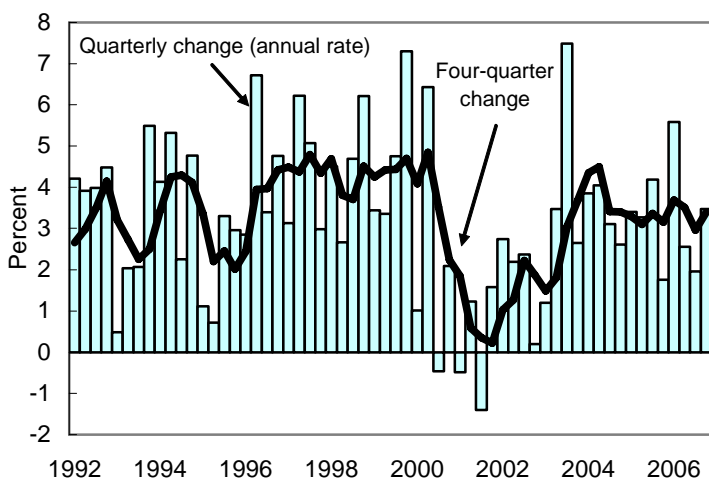
- **Payroll employment rose moderately in January.** Total payroll employment at nonfarm establishments rose by 111,000 jobs last month. That was below the 150,000-job gain markets were expecting. The latest jobs data reflect upward revisions to past job growth back to 2002. With the revisions, job growth over the past 12 months was 1.6 percent, continuing a pattern in this expansion of 12-month job gains that are smaller than those achieved during the 1990s expansion (see top chart).

- **The unemployment rate edged up in January.** The civilian unemployment rate rose 0.1 percentage point last month to 4.6 percent. The labor force participation rate (the percentage of the population either working or looking for work) and the percentage of the population with a job each edged down 0.1 percentage point in January; both are lower than they were in March 2001 when the recession began.

- **Earnings growth has moderated in recent months.** The average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose by 0.2 percent in January, following an average monthly gain of 0.4 percent over the previous three months. The employment cost index (ECI) for civilian workers—a broader measure that combines wages and benefits—rose by 0.8 percent between September and December, after rising by 0.9 percent over the previous three months. Because inflation has moderated as well, however, real wages have started to grow in recent months.

- **The economy rebounded in the fourth quarter but future growth is expected to be more moderate.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 3.5 percent in the fourth quarter, after posting just a 2.0 percent gain in the third quarter (see bottom chart). Over the past year, real GDP grew 3.4 percent. Most analysts expect that growth over the course of this year will be below the 3 to 3½ percent long-run pace thought to be sustainable with stable inflation.

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The Economy at a Glance	Jan	Dec	Nov	Oct	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.5	2.0	2.6	5.6	3.4	3.2
Industrial Production (% growth)	n.a.	4.9	-1.2	-1.2	-0.5	4.0	6.5	5.0	4.0	3.2
Capacity Utilization (level, %)	n.a.	81.8	81.6	81.8	81.7	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)	4.6	4.5	4.5	4.4	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)	n.a.	1642	1572	1478	1564	1714	1873	2123	1819	2073
Real Disposable Personal Income (% growth)	n.a.	1.9	3.1	5.1	5.4	4.1	-1.5	4.6	2.7	1.2
Retail Sales (% growth)	n.a.	11.1	7.1	-2.5	0.3	3.7	3.3	12.8	6.3	7.2
Personal Saving Rate (level, %)*	n.a.	-1.2	-1.0	-0.7	-1.0	-1.2	-1.4	-0.3	-1.0	-0.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	6.2	0	-5.8	-2.2	2.9	5.0	2.2	3.2	3.4
Core CPI-U Inflation (% growth)	n.a.	2.4	0	1.2	1.8	3.0	3.5	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	3.2	4.1	3.6	2.4	3.1	3.3
Output per hour (% growth)*	—	—	—	—	n.a.	0.2	1.2	4.3	n.a.	2.3
Financial Markets										
T-bill Rate, 3-month (level, %)	4.98	4.85	4.94	4.92	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.76	4.56	4.60	4.73	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.25	5.24	5.25	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12513	12378	12185	11963	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

*Subject to revision over the next week.

Upcoming Economic Releases:

- **Productivity and Costs: Fourth quarter 2006 (Preliminary)** [Release: Wednesday, February 7]
- **Consumer Credit: December 2006** [Release: Wednesday, February 7]
- **Monthly Wholesale Trade: December 2006** [Release: Friday, February 8]